

REPORT OF
FINANCIAL EXAMINATION

Healthy Alliance Life Insurance Company

AS OF
DECEMBER 31, 2004

STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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June 30, 2005
St. Louis, Missouri

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Financial Services
Chairman, Financial Condition (E) Committee, NAIC

Honorable Jorge Gomez, Commissioner
Office of the Commissioner of Insurance
State of Wisconsin
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Healthy Alliance Life Insurance Company

hereinafter referred to as such or as "HALIC" or as the "Company." The Company's statutory home office is located at 1831 Chestnut Street, St. Louis, Missouri, telephone number (877) 864-2273. This examination began on January 24, 2005 and concluded on June 30, 2005.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of the Company was made as of December 31, 2000, by examiners from the state of Missouri representing the Midwestern Zone

of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2001, through December 31, 2004, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring subsequent to December 31, 2004.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the state of Missouri prevailed.

The Missouri Department of Insurance engaged an independent actuary, Karen E. Elsom, FCAS, MAAA, with Lewis & Ellis, Inc., to perform a review of the Company's reserve calculations and reserving methodologies.

Comments - Previous Examination

The prior Report of Financial Examination made as of December 31, 2000 did not contain any comments or recommendations.

HISTORY

General

Healthy Alliance Life Insurance Company was formed in January 1992. The Company was domiciled in the state of Missouri with an initial capitalization of \$1,500,000, which included 60,000 shares of \$10 par common stock, and \$900,000 additional paid in capital. The Company's ultimate parent at that time was Blue Cross Blue Shield of Missouri, Inc.

In November of 1993, Healthy Alliance Life Insurance Company merged with Transcontinental Life Insurance Company, an Arizona domiciled insurer. The surviving entity was named Healthy Alliance Life Insurance Company, a Missouri domiciled life, accident and health insurance company.

On August 8, 1994, Blue Cross and Blue Shield of Missouri, Inc. (BCBSMO) completed a reorganization which included the initial public offering of RightCHOICE Managed Care, Inc. (RightCHOICE) and the transfer of the majority of the assets of BCBSMO to RightCHOICE in exchange for approximately 80% of the stock of RightCHOICE. In addition, BCBSMO no longer renewed any subscriber agreements in which Healthy Alliance Life Insurance Company or other subsidiaries were capable of renewing and providing the related managed care benefits.

Subsequent to the 1994 reorganization, the Missouri Department of Insurance (MDI) and the Missouri Attorney General's Office sued BCBSMO alleging that the reorganization and initial public offering constituted a "de facto conversion to a for-profit corporation." RightCHOICE and MDI reached a tentative settlement on April 22, 1998, whereby BCBSMO would be dissolved and the shares of RightCHOICE owned by BCBSMO would be contributed to a nonprofit healthcare foundation (Missouri Foundation for Health). In addition, BCBSMO

paid the Missouri Foundation for Health a settlement of \$12.8 million in partial satisfaction of claims by various parties. Insurance contracts in force underwritten or issued by BCBSMO were assumed by HALIC per an Assumption Agreement dated March 14, 2000. The transfer of liabilities was effectuated in November 2000.

On January 31, 2002, RightCHOICE completed a merger with WellPoint Health Networks Inc. (WHN) and RWP Acquisition Corporation (a wholly owned subsidiary of WHN). WellPoint Health Networks Inc. was created as a result of Blue Cross and Blue Shield of California's conversion from a nonprofit to for-profit company. According to the terms of the merger, RightCHOICE and RWP Acquisition Corporation were merged with the new entity named RightChoice Managed Care, Inc. (RightCHOICE). MDI approved the acquisition by WellPoint Health Networks Inc. on January 16, 2002.

On November 30, 2004, a merger was completed between Wellpoint Health Networks Inc. and Anthem, Inc. (an Indianapolis-based corporation). Anthem, Inc. grew out of two corporations formed in 1944 and 1946 as mutual insurance companies. (Blue Cross of Indiana and Blue Shield of Indiana). The merger between WHN and Anthem Inc. (a \$16.5 billion merger) created the nation's largest health insurer. The companies' agreement to merge was announced Oct. 27, 2003. Under the terms of the agreement, WellPoint Health Network Inc. stockholders received \$23.80 in cash and one share of Anthem, Inc. common stock for each WHN share outstanding. Anthem Inc. (NYSE: ATH), the surviving corporate parent, was renamed WellPoint Inc. Its common stock is traded on the NYSE under the symbol WLP. WellPoint Inc. now serves approximately 28 million medical members through its Blue Cross or Blue Cross and Blue Shield operations in 13 states, and its non-Blue branded operations in other states. The company has more than 38,000 employees nationwide.

Capital Stock

Healthy Alliance Life Insurance Company has the authority to issue 2,000,000 shares of \$1.25 par value common stock. There were 2,000,000 shares issued and outstanding on December 31, 2004, for a balance of \$2,500,000 in the Company's capital stock account. All 2,000,000 shares are owned by RightCHOICE Managed Care, Inc., an indirect subsidiary of WellPoint, Inc., the ultimate parent.

Dividends

The Company has declared and paid dividends to shareholders during the current examination period as follows:

	<u>Cash</u>
2001	\$16,000,000
2002	20,000,000
2003	15,000,000
2004	<u>65,000,000</u>
Total	<u>\$116,000,000</u>

Management

The Company's Articles of Incorporation prescribe that the Corporation be managed by a board of directors, the number of which is to be between 9 and 21, elected at each Annual Meeting of Shareholders. Directors serving at December 31, 2004 (according to the Company's 2004 Annual Statement) were as follows.

<u>Name</u>	<u>Location</u>	<u>Business Affiliation</u>
Angela F. Braly	St. Louis, MO	President and Chief Executive Officer Blue Cross Blue Shield of Missouri
Stuart K. Campbell	Thousand Oaks, CA	Senior Vice President, Corporate Strategic Planning and Management Process WellPoint, Inc.

David C. Colby	Indianapolis, IN	Executive Vice President and Chief Financial Officer WellPoint, Inc.
Keith R. Faller	Indianapolis, IN	President and Chief Executive Officer Central Region WellPoint, Inc.
David R. Frick	Indianapolis, IN	Executive Vice President and Chief Legal and Administrative Officer WellPoint, Inc.
Lawrence P. Glascott	St. Louis, MO	Vice President and Chief Financial Officer Central Region WellPoint, Inc.
Nancy L. Purcell	Indianapolis, IN	Vice President and Corporate Secretary WellPoint, Inc.
Jay R. Naftzger	Chicago, IL	Vice President, Legal WellPoint, Inc.
Michael C. Wyatt	Indianapolis, IN	Vice President, Legal WellPoint, Inc.

The officers appointed and serving as of December 31, 2004, according to the Company's 2004 Annual Statement were as follows:

<u>Name</u>	<u>Office</u>
Angela F. Braly	President
David C. Colby	Chief Financial Officer
Nancy L. Purcell	Secretary
Robert D. Kretschmer	Treasurer
David M. Henley	Assistant Secretary
Michael C. Wyatt	Assistant Secretary

Conflict of Interest

The Company has a corporate policy requiring that conflict of interest disclosure statements be executed annually by all board members and officers. A review of the conflict of interest disclosure statements indicated no material conflicts for the calendar years 2001 and 2003. It was noted that the Company could not provide documentation to show that all officers and directors had completed conflict of interest disclosure statements for the years 2002 and 2004. We recommend that the Company require officers, directors and key employees to complete conflict of interest disclosure statements on an annual basis. The Company should retain copies of these statements in their corporate records to illustrate that this procedure is being performed.

Corporate Records

The Articles of Incorporation and the Bylaws were reviewed. The Articles of Incorporation were amended to reflect a change in the par value of the Company's capital stock from \$1.00 to \$1.25 per share. Various other inconsequential amendments to the Bylaws were made during the period under examination, such as the date of the annual board of directors meeting.

The minutes of the meetings of the shareholder and board of directors were reviewed for the period under examination. The board of directors acknowledged their review of the 2000 Missouri Department of Insurance (MDI) Report of Financial Examination in October 2002.

The Company was unable to provide examiners with copies of, or access to, all board of directors minutes and shareholder minutes. In the case of shareholder minutes, no documents could be provided relating to meetings after May 2002. The members of the board of directors

have changed significantly since the last documented election, an act which requires a majority vote of the shareholders. In addition, the Company could not produce board of director's minutes subsequent to May 2004. The Company's elected officers have changed since the May 2004 meeting, however no documentation could be produced to illustrate that the board approved these elections. The lack of availability of these corporate documents suggests a significant weakness by those most responsible for managing the affairs of the corporation. The Company is directed to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholder as required in the Company's own governing documents.

Acquisitions, Mergers and Major Corporate Events

Healthy Alliance Life Insurance Company was not a direct party in any acquisition, merger or major corporate events during the current examination period. The Company's parent, however, was involved in multiple significant transactions. See the History "General" subsection above for further information.

Surplus Debentures

The Company does not have any surplus debentures issued or outstanding.

AFFILIATED COMPANIES

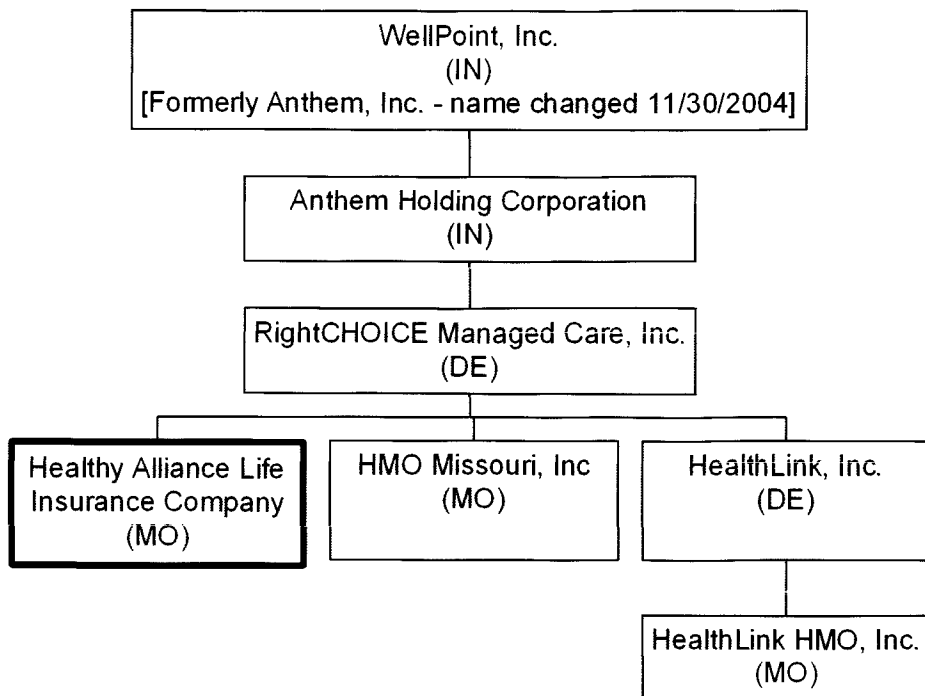
Holding Company, Subsidiaries and Affiliates

The Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions), with Wellpoint, Inc. designated as the ultimate controlling entity in the insurance holding company system. Wellpoint, Inc. is a publicly held corporation

headquartered in Indianapolis, Indiana. The common stock of Wellpoint, Inc. is traded on the New York stock exchange under the symbol WLP. No one party owns 10% or more of the voting securities of Wellpoint, Inc.

Organizational Chart

The following is a portion of the entire Wellpoint, Inc. organizational chart. Only companies directly related to Healthy Alliance Life Insurance Company, other Missouri domestic insurers, and companies with which HALIC has direct management or reinsurance contracts are included. All companies are 100% owned by their immediate parent unless otherwise noted.



Affiliated Transactions

Healthy Alliance Life Insurance Company is party to the following agreements with affiliates. All agreements noted below, that originated during or subsequently to the examination period, were reviewed and approved by the Missouri Department of Insurance.

1. Type: *Master Service Agreement and Attachment WLPRT-1*
Parties: WellPoint, Inc. and subsidiaries or affiliates
Effective: Effective January 1, 2003; Non-disapproved by MDI May 28, 2003
Terms:
 - RightChoice, Inc. and BlueCross of California provide administrative services on behalf of HALIC and HMO Missouri, Inc.
 - Certain WellPoint, Inc. affiliates also provide limited services on behalf of the Missouri domestics.
 - Pharmacy benefit services are provided by Professional Claims Services, Inc. and Precision Rx (mail order prescriptions).
 - CostCare, Inc. and SellCore, Inc. provide utilization services and telecommunications consulting services on behalf of HMO Missouri and HALIC respectively.
 - Employees of BC Life & Health Insurance Company , Unicare Life & Health Insurance Company and Greater Georgia Life Insurance Company assist HALIC in developing life products.
 - Additional services may be requested by HALIC, HMO Missouri, Inc. or Health Link HMO from WellPoint affiliates.
 - HALIC, HMO Missouri, Inc. and HealthLink HMO reimburse companies providing services under this agreement for direct and allocated costs incurred through Wellpoint, Inc.

2. Type: *Out of Network Agreement and First Amendment*
Parties: Healthy Alliance Life Insurance Company and HMO Missouri, Inc.
Effective: Effective January 15, 1997; Submitted to MDI September 20, 2002, non-disapproved February 13, 2003
Terms: HALIC provides out of network coverage to enrollees of HMO Missouri, Inc. who choose an out of network (or point of service) option. HMO Missouri, Inc. pays HALIC a per member per month amount (determined on a quarterly basis, based on underwriting, actuarial and historical claims information).

3. Type: *Stop-Loss Coverage Agreement*
Parties: Healthy Alliance Life Insurance Company and HMO Missouri, Inc.
Effective: Effective as of the date of each underlying Administrative Service Only agreement; Non-disapproved by MDI October 1, 2002
Terms: HALIC provides stop loss coverage to certain administrative services only clients of HMO Missouri, Inc. as required under the administrative services agreements between HMO Missouri, Inc. and plan sponsors as set forth on the sponsor's retention schedule.
4. Type: *Tax Allocation Agreement*
Parties: Eligible WellPoint, Inc. subsidiaries
Effective: Effective January 31, 2002; Non-disapproved by MDI November 5, 2002
Terms: The RightChoice Managed Care, Inc. subsidiaries participate in the filing of a consolidated federal income tax return with WellPoint, Inc. and its other subsidiaries. The consolidated tax liability allocated to the companies is limited to their separate tax return tax liability. Companies are reimbursed for any deductions, net operating losses and credit used by the consolidated group. Estimated tax payments and settlements are made through the intercompany accounts of subsidiaries.
5. Type: *Guarantee and Conversion Agreement*
Parties: WellPoint and Healthy Alliance Life Insurance Company
Effective: Dated January 31, 2002; Non-disapproved by MDI January 17, 2002
Terms: WellPoint agrees to guarantee to the full extent of its assets all of the contractual and financial obligations of HALIC. In the event that HALIC ceases operations, WellPoint or one of its licensed affiliates will provide coverage to the policyholders of HALIC without consideration of health status.

FIDELITY BOND & OTHER INSURANCE

Healthy Alliance Life Insurance Company is a named insured on a \$20,000,000 fidelity policy, with a \$250,000 deductible, issued to Wellpoint, Inc.. The fidelity bond meets the suggested minimum coverage of the NAIC and the requirements of Section 354.425 RSMo "Surety bond requirements."

The Company is also a named insured on policies taken out by WellPoint, Inc. for the following types of coverage: general liability, workers' compensation, professional liability, commercial property, commercial automobile, errors and omissions, terrorism, umbrella, and directors and officers liability. Wellpoint, Inc. appears to provide adequate coverage for Healthy Alliance Life Insurance Company's exposed risk.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. All personnel services are provided by subsidiaries of Wellpoint, Inc. through the Master Service Agreement. WellPoint, Inc. provides its employees with benefits such as vacation and insurance products comparable to the benefits provided by other companies in the insurance industry.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were sufficient in par and market value to meet the \$600,000 deposit requirement for the state of Missouri in accordance with Section 376.290 RSMo "Trust deposits." The Special Deposits with the Missouri Department of Insurance are held for the benefit of all policyholders, claimants and creditors of the Company.

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Notes	\$400,000	\$398,125	\$398,229
US Treasury Notes	<u>681,000</u>	<u>676,982</u>	<u>677,598</u>
TOTALS	<u>\$1,081,000</u>	<u>\$1,075,107</u>	<u>\$1,075,827</u>

Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed to satisfy their statutory deposit requirements. Those funds on deposit with other states, which are not held for the benefit of all policyholders, claimants and creditors of the Company, as of December 31, 2004, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Arkansas	US Treasury Notes	\$110,000	\$109,076	\$109,138
New Mexico	US Treasury Notes	110,000	109,758	109,780
N. Carolina	US Treasury Notes	110,000	109,076	109,138
N. Carolina	US Treasury Notes	320,000	317,600	317,798
Virginia	US Treasury Notes	<u>250,000</u>	<u>247,775</u>	<u>248,084</u>
	TOTALS	<u>\$900,000</u>	<u>\$893,285</u>	<u>\$893,938</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is a licensed insurer in the District of Columbia and 33 states, although it writes new business only in Missouri. The Company is licensed in Missouri under Chapter 376 RSMo (Life and Accident Insurance) to write life, accident and health insurance.

The Company participates in the Blue Cross Blue Shield Association's BlueCard(R) PPO program. The BlueCard(R) PPO program allows the Company's Alliance PPO members access to Blue Cross Blue Shield plan PPO providers throughout the nation without paying more out of pocket for being out of the Company's provider network.

The Company underwrites the following products marketed by RightCHOICE Managed Care, Inc., which does business as Blue Cross and Blue Shield of Missouri (BCBSMO) and Alliance Blue Cross Blue Shield:

- Alliance - a Preferred Provider Organization (PPO) product available within the entire RightCHOICE Managed Care, Inc. service area, which is composed of the city of St. Louis and 84 counties in eastern and southern Missouri.
- AllianceCHOICE – an open access PPO product available to the five-county St. Louis metropolitan sales area.
- Alliance Preferred – same product as AllianceCHOICE except that the available hospitals under this product are different.
- HealthNet Blue Basic – a PPO product available within the Southeast Missouri area (no longer offered to new groups).
- Managed Indemnity – an indemnity program with the insureds benefiting from lower coinsurance if they utilize the preferred provider network (not actively sold to new members).
- Short-Term Medical – a bridge product which provides coverage from one to twelve months for members between jobs or fulfilling their employer’s waiting period.
- Standardized and Pre-Standardized Medicare Supplement – Medicare supplemental products sold to individuals that cover Medicare deductibles, co-insurance and benefits to some degree.
- Medicare Select - Medicare supplemental products sold to individuals that cover Medicare deductibles, co-insurance and benefits to some degree. Product has an enhanced inpatient hospital benefit if member selects a participating hospital.
- Hospital / Surgical - A PPO product, available to individuals and groups within the entire BCBSMo sales area. Various deductible, coinsurance, copayment and stop loss options are available. Available with Alliance or AllianceCHOICE network.
- HSA-Compatible High Deductible Health Plans - A PPO product, available to individuals and groups within the entire BCBSMo sales area. Various deductible, coinsurance and stop loss options are available. Health savings accounts are a consumer-driven strategy for managing the rising costs of health care expenses. The HSA-Compatible Medical Plan is a qualified high-deductible health plan. Coupled with a health savings account, it will allow employees to set aside money in a tax-exempt account to cover qualified medical expenses that aren’t covered by their health plan.
- Unbranded Missouri Products – PPO products sold under the Health Alliance name (no BCBS logos). Product was sold in the thirty counties surrounding Kansas City. The products have not been actively sold since 1996.

- Basic Blue – low-cost limited benefit PPO available to individuals who meet income requirements.
- ASO / ASC Business – HALIC administers various Administrative Service Only and Administrative Service Contract plans on behalf of employer groups. The Company also provides stop-loss coverage for some of the self-insured groups and for self-insured groups administered by HMO Missouri, Inc.
- Blue Cross and Blue Shield Service Benefit Plan. The Company provides PPO benefits to federal employees and retirees under the Federal Employee Program, an arrangement between the Blue Cross Blue Shield Association and the United States Office of Personnel Management.
- The Company also provides administrative services only for self-insured employers or other groups. The Company provides stop-loss coverage for some of the self-insured groups and for self-insured groups administered by HMO Missouri, Inc.

Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate Market Conduct report. The most recent Missouri Market Conduct examination covered the period of January 1, 2000 through December 31, 2000, and was completed on June 13, 2002. The examination disclosed several non-compliance issues subject to penalty, none of which had a material effect on the financial condition of the Company.

REINSURANCE

General

Premiums reported during the period under examination were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct Business	\$832,604,902	\$999,723,714	\$1,144,366,859	\$1,255,834,794
Reinsurance Assumed	3,630,854	3,148,557	9,319,322	7,037,367
Reinsurance Ceded	(11,036,895)	(13,132,730)	(13,279,605)	(11,614,077)
Net Premium Written	<u>\$825,198,861</u>	<u>\$989,739,541</u>	<u>\$1,140,406,576</u>	<u>\$1,251,258,084</u>

Assumed Reinsurance

HMO Missouri, Inc.

The Company entered into a stop loss reinsurance agreement with HMO Missouri, Inc. effective January 1, 1999 through December 31, 2000. After the initial term the contract renews annually for an additional term of twelve months unless either party gives at least ninety days prior notice in writing of its intention not to renew. Under this contract HALIC assumes 100% of policies written by HMO Missouri, Inc. which are out of HMO Missouri Inc.'s network. The Company received premiums of \$7,032,214 in 2004 related to this agreement.

Missouri Valley Life and Health Insurance Company

The Company entered into a reinsurance agreement with Missouri Valley Life and Health Insurance Company (MVLH) effective March 1, 1996. Under the agreement the Company assumes 50% of MVLH's unbranded small group contracts, 50% of MVLH's unbranded Farm Bureau contracts and 100% of all other MVLH unbranded business. Unbranded business refers to business sold by one Blue Cross Company in another Blue Cross Company's territory. The Company has been converting unbranded business to HALIC policies. In 2004, the Company received \$5,153 in premiums related to this agreement.

Ceded Reinsurance

Blue Cross and Blue Shield of Kansas City

Reinsurance is ceded to Blue Cross and Blue Shield of Kansas City (BCBSKC) pursuant to an agreement dated July 1, 2003. Missouri State Teachers Association contracts written by HALIC in western Missouri in the territory of BCBSKC are assumed 100% by BCBSKC. The business involved in this agreement is unbranded business. The purpose of this agreement is to convert the unbranded business of one company to the branded (Blue Cross) business of the other company. The Company paid \$11,304,445 in premiums during 2004 related to this agreement.

MedAmerica Insurance Company

The Company is party to a Proportional Share reinsurance agreement with MedAmerica Insurance Company covering its long term care business. The Company retains 20% of losses under this agreement and the reinsurer accepts the remaining 80%. The premium is 80% of the gross premium collected by the Company after deducting the ceding commission. The Company paid \$106,882 in premiums during 2004 relating to this agreement.

Swiss Re Life and Health

The Company is party to an Excess Catastrophe reinsurance agreement with Swiss Re Life and Health covering life and accidental death and disability policies written by the Company. The Company retains the first \$1,000,000 of ultimate net loss under this agreement. The reinsurer is responsible for any remaining loss, not to exceed \$5,000,000 in respect to any one occurrence or \$10,000,000 in total during the term of the contract. The Company pays the reinsurer a premium of \$9.76 per million of mean net liability in force during the contract term.

The Company is also party to a Group Life Excess reinsurance agreement with Swiss Re Life and Health covering basic and supplemental life business including disability waiver of premium benefits. The Company retains the first \$200,000 of liability per person, the reinsurer is liable for the amount greater than \$200,000, not to exceed \$800,000 per person. The agreement includes a schedule of applicable premium rates. In 2004, the Company paid the reinsurer \$37,416 in premium related to these two agreements.

Phoenix Home Life Mutual Assurance Company

The Company is party to a Quota Share reinsurance agreement with Phoenix Home Life Mutual Assurance Company covering group long-term disability contracts written by the Company. The reinsurer is responsible for 100% of paid claims insured under this contract. The Company must remit all premiums received to the reinsurer by the 15th day of the month following the month of receipt. In 2004, the Company paid the reinsurer \$150,345 in premium related to this agreement.

Hartford Life and Accident Insurance Company

The Company is party to an Excess reinsurance agreement with Hartford Life and Accident Insurance Company covering basic and supplemental group accidental death and dismemberment contracts. The Company retains the first \$100,000 of ultimate net loss per insured person. The reinsurer is liable for the amount greater than \$100,000, not to exceed \$650,000 of ultimate net loss per person. The premium rate, guaranteed through April 30, 2005, is \$.20 per \$1,000 of the in-force reinsured liability. In 2004, the Company paid the reinsurer \$14,845 in premium related to this agreement.

Each of the reinsurance agreements described above was properly submitted to and not disapproved by the Missouri Department of Insurance.

ACCOUNTS AND RECORDS

General

The Company maintains its general ledger with the Peoplesoft General Ledger software system. The general ledger is maintained at Wellpoint, Inc.'s facility in California. The "Facets" software system is used to track the majority of the Company's premium, enrollment, eligibility and claims information.

Independent Auditor

The Company's financial statements were audited by the CPA firm PricewaterhouseCoopers LLP as part of the WellPoint, Inc. company-wide audit for the years ending 2000 to 2004. A review was made of the workpapers available related to the last CPA audit. Limited use of these workpapers and reports was used in the course of this examination as deemed appropriate.

Independent Actuary

Claims related reserves and other actuarial items are reviewed and certified by Cynthia S. Miller, FSA, MAAA, Vice President and Corporate Actuary of WellPoint, Inc., the ultimate parent of Healthy Alliance Life Insurance Company. Consulting actuary, Karen E. Elsom, FCAS, MAAA, with Lewis & Ellis, Inc., was retained by the Missouri Department of Insurance to review the adequacy of reserves and other related liabilities.

Premium Tax Credit

Examination of the company's Missouri premium tax returns for tax years 2001 - 2004 discovered improper examination fee credits take by the company on their 2001 and 2002 Missouri premium tax returns. The company overstated the credit taken related to financial examination fees by \$22,509.24 on their 2001 Missouri premium tax return and by \$90,495.01 on their 2002 Missouri premium tax return. The error occurred due to the company inappropriately applying fees related to the financial examination of an affiliate to Healthy Alliance Life Insurance Company's premium taxes. We direct the company to file amended premium tax returns with the state of Missouri for tax years 2001 and 2002 and report the correct amounts for 2000 financial examination fee credits taken. We further recommend that the company attach a copy of the applicable financial examination fee allocation agreement form to all premium tax returns filed where the financial examination fee credit is claimed. The amount of these differences did not present a material difference to the financial statements below, therefore, no change was made to the Company's financial statements.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

ASSETS

	<u>Ledger & Non- Ledger Assets</u>	<u>Assets Non-Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 352,251,315		\$ 352,251,315
Cash and short-term investments	(1,110,508)		(1,110,508)
Receivable for securities	11,349		11,349
Derivative Instruments	100,028		100,028
Investment income due and accrued	3,194,622		3,194,622
Premiums in course of collection	10,305,496	348,054	9,957,442
Amounts recoverable from reinsurer	4,913,328	13,312	4,900,016
Other reinsurance amounts receivable	443,440		443,440
Amounts receivable related to uninsured plans	1,904,375		1,904,375
Net deferred tax asset	5,914,802		5,914,802
Guaranty funds receivable or on deposit	1,929,526	1,929,526	0
Electronic data processing equipment	53,088,982	53,086,345	2,637
Furniture and equipment	721,882	721,882	0
Receivable from affiliates	2,820,887		2,820,887
Health care receivable	32,517,939	1,833,521	30,684,418
Other assets nonadmitted	386,757	386,757	0
Company owned life insurance	1,134,339		1,134,339
Accrued corporate finance expenses	196,511	196,511	0
Federal employee plan assets held by agent	32,125,420		32,125,420
State income tax recoverable	<u>186,815</u>		<u>186,815</u>
Total Assets	<u>\$ 503,037,305</u>	<u>\$ 58,515,908</u>	<u>\$ 444,521,398</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$ 90,711
Aggregate reserve for accident and health contracts	9,801,576
Liability for deposit-type contracts	1,194,856
Life contract claims	1,103,079
Accident and health contract claims	128,541,262
Premium considerations received in advance	15,448,450
Provision for experience rating refunds	2,713,741
Interest maintenance reserve	5,212,472
Commissions to agents due or accrued	5,968,321
General expenses due or accrued	11,852,976
Taxes licenses and fees due or accrued	8,148
Current federal income taxes	4,261,970
Amounts withheld or retained by company	128
Remittances and items not allocated	4,816,311
Asset valuation reserve	851,630
Payable to affiliates	12,277,436
Liability for amounts held under uninsured accident and health plans	2,709,118
Miscellaneous liability	41,262
Awaiting escheat funds	2,266,935
Federal employee plan claims overpayment	1,612,906
Accrued retroactive premium	995,000
Federal employee plan working capital deposit	1,630,531
Federal employee plan premium stabilization reserves	32,125,420
Derivative instrument-options	178,649
Total Liabilities	<u>\$ 245,702,888</u>
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	83,957,343
Unassigned funds (surplus)	112,361,167
Surplus as regards policyholders	<u>\$ 198,818,510</u>
Total Liabilities and Surplus	<u>\$ 444,521,398</u>

STATEMENT OF INCOME

	<u>Current Year</u>
Premiums and annuity considerations	\$ 1,251,258,084
Net investment income	14,594,309
Amortization of interest maintenance reserve	1,284,737
Commissions and expense allowances on reinsurance ceded	<u>1,078,506</u>
Total Income	\$ 1,268,215,636
Death benefits	\$ 3,826,593
Disability, accident and health benefits including premiums waived	948,041,677
Group conversions	29,661
Interest and adjustments on deposit-type contract funds	235,510
Increase in aggregate reserves for life and accident and health contracts	(1,430,327)
Commissions on premiums and annuity considerations	52,750,771
Commissions and expense allowance on reinsurance assumed	(137,498)
General insurance expenses and fraternal expenses	117,993,260
Insurance taxes, licenses and fees	14,150,910
Regulatory fine	<u>39,203</u>
Total Expenses	\$ 1,135,499,760
Net gain from operations before dividends to policyholders	\$ 132,715,876
Federal income taxes incurred	(45,652,597)
Net realized capital gains or (losses)	<u>1,207,244</u>
Net Income	<u>\$ 88,270,523</u>

CAPITAL AND SURPLUS

	<u>Current Year</u>
Surplus as regards policyholders, December 31, 2003	\$ 196,640,908
Net income or (loss)	88,270,523
Change in net deferred income tax	(5,986,025)
Change in nonadmitted assets	(17,714,312)
Change in asset valuation reserve	(169,619)
Dividends to stockholders	(65,000,000)
Surplus adjustment	2,777,035
Net examination changes	0
Change in surplus as regards policyholders	<u>\$ 2,177,602</u>
Surplus as regards policyholders, December 31, 2004	<u>\$ 198,818,510</u>

EXAMINATION CHANGES

None

NOTES TO FINANCIAL STATEMENTS

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Conflict of Interest

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It was noted that the Company could not provide documentation to show that all officers and directors had completed conflict of interest disclosure statements for the years 2002 and 2004. We recommend that the Company require officers, directors and key employees to complete conflict of interest disclosure statements on an annual basis. The Company should retain copies of these statements in their corporate records to illustrate that this procedure is being performed.

Corporate Records

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The Company was unable to provide examiners with copies of, or access to, all board of directors minutes and shareholder minutes. The Company is directed to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholder as required in the Company's own governing documents.

Examination of the company's Missouri premium tax returns for tax years 2001 - 2004 discovered improper examination fee credits take by the company on their 2001 and 2002 returns. The company overstated the credit taken related to financial examination fees by \$22,509.24 on their 2001 Missouri premium tax return and by \$90,495.01 on their 2002 Missouri premium tax return. We direct the company to file amended premium tax returns with the state of Missouri for tax years 2001 and 2002 to report the correct amounts for 2000 financial examination fee credits taken. We further recommend that the company attach a copy of the applicable financial examination fee allocation agreement form to all premium tax returns filed where the financial examination fee credit is claimed.

SUBSEQUENT EVENTS

The Board of Directors of Healthy Alliance Life Insurance Company declared an ordinary dividend in the amount of \$72,000,000 on May 2, 2005. HALIC paid this dividend to its parent company, RightCHOICE Managed Care, Inc. on June 3, 2005.

In July 2005, WellPoint, Inc. and subsidiaries agreed to pay up to \$198 million to settle two nation-wide class-action lawsuits regarding alleged unfair payment practices with providers. WellPoint, Inc. has agreed to pay \$135 million to doctors and contribute \$5 million to a nonprofit foundation aimed at improving health care for the disadvantaged. WellPoint, Inc. will also pay legal fees to be determined by the court of up to \$58 million. Health Alliance Life Insurance Company's portion of this settlement is estimated to be approximately \$6 million. Disclosure regarding this litigation was included in the Company's Holding Company Registration Statements and the 2004 Annual Statement (described as *Shane v. Humana , et al*).


ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Healthy Alliance Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, James Simmerman, CFE, John Boczkiewicz, CPA, CFE, Thomas Cunningham, CFE, Arthur L. Palmer, AFE, and Richard Stamper, CFE examiners representing the Missouri Department of Insurance, participated in this examination. MDI also engaged an independent actuary, Lewis & Ellis, Inc., to perform a review of the Company's reserve calculations and methodology.

VERIFICATION

State of Missouri)
) ss
County of St. Louis City)

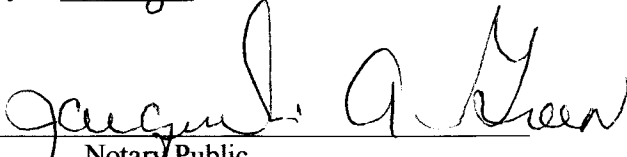
I, Michael R. Shadowens, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Michael R. Shadowens, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 17th day of August, 2005.

My commission expires:

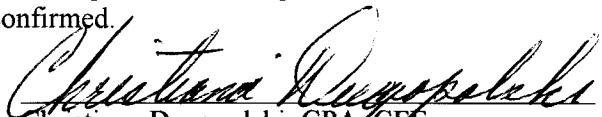
JACQUELINE A. GREEN
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires March 22, 2008

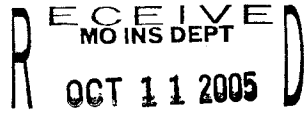


Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Christiana Dugopolski, CPA, CFE
Audit Manager, St. Louis
Missouri Department of Insurance
Midwestern Zone, National Assoc. of Ins. Commissioners



October 6, 2005

Mr. Kirk Schmidt, CFE, CPA
Chief Financial Examiner
Department of Insurance
P.O. Box 690
Jefferson City, Missouri 65102-0690

VIA CERTIFIED U.S. MAIL

Re: Healthy Alliance Life Insurance Company
Financial Examination Report Dated June 30, 2005

Dear Mr. Schmidt:

Enclosed please find Healthy Alliance Life Insurance Company's (the Company) responses to the recommendations made by your office with respect to the financial examination report for the year ended December 31, 2004 received September 10, 2005. We have reviewed the report and accept the report as is, including those recommendations included on pages 26-27 of the report. We wish to have our responses included in the report as a public document.

Please do not hesitate to contact me if you have any questions relating to these responses.

Sincerely,

Brian K. Ollech
Director, Financial Reporting
WellPoint, Inc.
Phone: (414) 226-5882
Fax: (414) 226-6500

Enclosure

cc:	Stuart Campbell	David Henley
	Pamela Whitelock	Nancy Purcell
	Brenda Buss	Joseph Tauber
	Tad Wells	

Healthy Alliance Life Insurance Company

Examination Report as of December 31, 2004

Responses to Recommendations

1. Page 26 – **Conflict of Interest**— It is recommended that the Company require officers, directors and key employees to complete conflict of interest disclosure statements on an annual basis. The Company should retain copies of these statements in their corporate records to illustrate that this procedure is being performed..

Response: The Company agrees with the recommendation above and enhanced the process in 2003. Annually, the Company completes a Conflict of Interest (COI) disclosure survey to ascertain if any conflicts exist with the insurer's Directors, Officers, and key employees. These COIs are initially reviewed by the Company's Ethics and Compliance department. The Company will continue to annually distribute these respective COI surveys to employees, officers and directors. The exceptions noted by the DOI for the 2004 review occurred since the exam was conducted during the timeframe of when the 2004 COI disclosure surveys were beginning to be collected. These exceptions were not related to the company's documented process.

2. Page 26 – **Corporate Records**— The Company is directed to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholders as required in the Company's own governing documents.

Response: The Company agrees with the recommendation above. The Company will ensure that documentation of the approval of the items noted in examination are approved by the board of directors / shareholders. In addition all future acts requiring board of directors / shareholders will be obtained and documented by Corporate Legal department in accordance with the Company's governing documents.

3. Page 27 – **Premium Tax Credit**— We direct the Company to file amended premium tax returns with the State of Missouri for tax years 2001 and 2002 to report the correct amounts for 2000 financial examination fee credits taken. We further recommend that the company attach a copy of the applicable financial examination fee allocation agreement form to all premium tax returns filed where the financial examination fee credit is claimed.

Response: The Company agrees with the recommendation above. The Company has filed amended premium tax returns for tax years 2001 and 2002 as noted in the financial examination. In addition, the Company will include all the applicable financial examination fee allocation agreement form to all future premium tax returns filed with the State of Missouri where a financial examination fee credit is claimed.